



# FINANCIAL LITERACY: A MOMENTUM TOWARDS FINANCIAL STABILITY IN SOCIETY

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## ABSTRACT

The paper examines the importance of the financial literacy for the financial stability in the society. The study focuses on the various magnitude of the financial literacy. The study also examines the impact of the financial literacy on society. It also examines that how financial literacy play a crucial role in taking sound financial decisions by individual. Financial literacy helps individual in proper financial planning as it gives knowledge regarding various financial concepts and techniques to individual. Considering the present situation financial literacy provides financial stability in individual life as it gives knowledge towards habits of saving, investment and financial planning to earn maximum income. Financial inclusion is very broad term as it includes financial literacy and financial education for appropriate financial attitude among individual towards proper financial planning. Financial literacy is the outcome from proper financial education which helps individual to take sound financial decisions. Because of financial literacy an individual got the proper information and sound knowledge about the different financial products and services offered by vary of financial institutions. Therefore, individual person can utilize these financial services in better manner. Financial literacy is crucial to individual to save at present for better future for his retirement. Financial well being of a person is depends on the level of financial literacy he had. Therefore, for sound financial management, financial literacy plays an important role.

**KEYWORDS:** Financial Inclusion, Financial Literacy, Financial Education, Financial Decision and Financial Planning.

## 1. Introduction:

Financial literacy plays a very significant role in individual life as it gives a appropriate knowledge of various financial concepts to individual for taking sound financial decisions. Financial literacy helps individual for gaining financial knowledge for developing right financial attitude. Because of low level of financial literacy it becomes difficult for individual to understand the various financial products provided by different financial institutions in the country and also seems that individual can stay away from the benefits of such products. Therefore it becomes necessary to literate people financially so that they can take proper advantages of various schemes and can develop right financial behavior and attitude. Financial literacy can be gained through financial education. There is need of financial literacy in rural area as people in the rural area are still not aware with many financial concepts as well as various financial services provided by different financial institutions.

There are some important attributes related to financial literacy are as follows:

- It is necessary for individual to identify their day to day need analysis so that it will assist him to fulfill his requirements through effective financial planning.
- It becomes necessary for individual to create a habit of earning and saving for proper investment avenues to avoid financial losses in future.
- It also becomes necessary to spend wisely to keep the proper balance in income and expenditure considering the priorities in life.
- Everyone can make monthly budget for analysis of source of income and expenditure for effective savings and creation of investment.
- Financial literacy helps in educating individual about various financial concepts and techniques for taking sound financial decisions.

## 1.1 Objectives of the study:

- To study the conceptual framework of financial literacy
- To study the impact of financial literacy
- To study the importance and advantages of financial literacy

## 1.2 Financial Literacy Model:

Financial literacy plays a crucial role for taking sound financial decisions in the edge of modern financial era. Financial literacy is playing important role for society. Financial literacy consist of financial information, knowledge and skills which assist individual to make apt financial decisions. Financial literacy helps individual to make the best use of available financial resources for economic prosperity. Financial literacy is directly associated with financial well being of the person as it gives the valuable insights related to money management in appropriate manner. Financial literacy assist individual to become as well informed related to

financial decisions. The components of financial literacy assist to do proper financial planning with the available financial options. Herewith the financial literacy model will help individual to have better financial attitude for sound financial behavior. The financial literacy model creates sound financial attitude among individual for taking informed financial decisions to minimize the future unpredicted risk. It assist to make able to understand through reading, analyzing, managing and communicating about the individual financial conditions for individual financial well being.

Following is the financial literacy model:

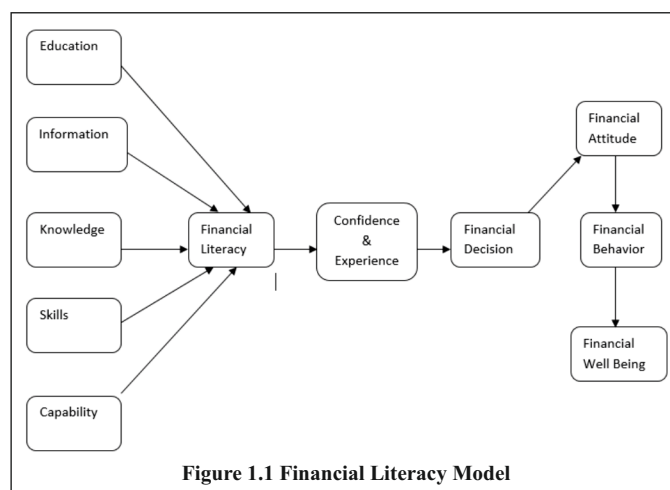


Figure 1.1 Financial Literacy Model

## 1.3 Benefits of Financial Literacy:

There are number of benefits of financial literacy for individual. Financial literacy assist individual to take sound financial decisions and to have financial stability in his life. Financial literacy assists to understand the various financial techniques which will help to have appropriate financial planning. Financial literacy assist individual to enhance financial skills, right financial behavior and financial attitude. Financial literacy also helps individual to have habits of savings for future investments. It also assists to create the monthly budget to keep the balance between the income and expenditure. It helps to understand the various financial services provided by different financial institutions. It assists to know the significance of time value of money.

## 1.4 Importance of Financial Literacy:

Financial literacy plays a very crucial role in individual life. Financial literacy is gaining of financial knowledge through financial education to become self sufficient and financial stable in life. It helps develop the positive attitude and behavior among individual for taking sound financial decisions for financial wellbeing. In the rapidly changing the financial environment financial literacy

plays a vital role to know about the various financial products and schemes for investment purpose for individual. Financial literacy provides a crucial knowledge about various financial concepts to individual for their financial stability and financial wellbeing. Financial literacy also provides a significant knowledge about retirement planning as well as tax planning. It gives a knowledge about to prepare budget planning so that individual can prepare for proper saving. It also helps to save hard earn money from various Ponzi schemes. Therefore it becomes necessary to spread the financial knowledge through the financial education in society. There are financial regulatory authorities in the country who have taken a very good initiatives for spreading knowledge through financial education literacy program across the country.

### 1.5 Importance of Financial Planning:

Financial planning plays a significant role for individuals to manage their day wise task. Financial planning helps individual to manage the funds in appropriate manner for their own financial wellbeing. Financial planning is systematic approach for individual investors for becoming financially fit in today's competitive world. Financial fitness depends upon how effectively a person uses the techniques of financial planning. Financial planning assists individual to analyze the current financial position and helps to lead towards desired financial position. It starts with analysis of financial position, budget preparation, to keep the balance between savings and investment, to help in effective management of personal portfolio management and to bring overall financial wellbeing and financial fitness. Financial literacy is a base for effective financial planning. If a person is financially literate then only he can do effective financial planning. Financial planning motivates a person for a habit of regular savings for future and also helps to minimize the unnecessary expenses. Following is the financial planning process:

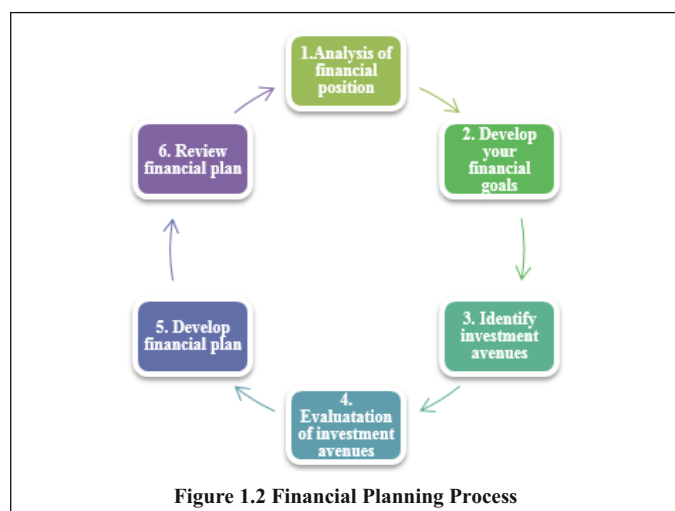


Figure 1.2 Financial Planning Process

### 1.6 Methodology:

For this study the sample size was 140 respondents and the questionnaire was prepared by the researcher with reference to the need and objectives of the research study. 115 questionnaires were used for this research study as the 25 questionnaires were incomplete. The questionnaire includes two sections, first information related to demography and second information related to financial saving and investment pattern. The primary data was collected through the questionnaire and secondary sources of data are used like various research papers, magazines, books, newspaper articles for this study.

### 1.7 Profile of the respondents:

Table 1: Profile of respondents

Variables	Categories	Percentage
Gender	Male	64.35
	Female	35.65
Age	20-30	21.74
	31-40	41.74
	41-50	20
	51 and above	16.52
Education	Graduation	50.43
	PG	34.78
	PhD	6.95
	Other	7.82
Proportion of Income saving for Investment	5 - 10%	29.56
	10-15%	44.35
	15-20%	16.52
	Above 20%	9.56

Investment Preference	Fixed Deposits	40
	Insurance	33
	Mutual Funds	10.56
	Stock Market	7.82
	Real Estate	8.56
Investment Objective	Children's education	33
	Housing Property	27.82
	Retirement Planning	21.74
	Future Contingencies	10.43
	Health Activity	6.95
Source of Financial Knowledge	Newspaper	45.21
	Internet	36.52
	Seminar	18.26

### 1.8 Analysis and Discussion:

- 21.74% respondents are in the age group of 20 to 30 years, 41.74% respondents belong to the age group of 31 to 40 years which is the highest one among all respective age groups, 20% respondents are in the age group of 41 to 50 years and 16.52% respondents belong to the age group 51 years and above.
- 50.43% respondents are graduate, 34.78% respondents have completed their PG, 6.95% respondents have completed their PhD and 7.82% respondents belong to other category. This shows that educational level has greater impact on sound financial decisions.
- Majority of respondents i.e. 95% respondents believe that financial education plays an important role in taking sound financial decisions for financial wellbeing.
- Majority of respondents believe that education plays a key role in sound financial decisions and well aware with the importance of saving and investment.
- 29.56% respondents are saving their proportion of income for investment belongs to the group of less than 5 to 10%, 44.35% respondents are saving their proportion of income for investment between 10 to 15%, 16.52% respondents are saving their proportion of income for investment between 15 to 20% and 9.56% respondents are saving their proportion of income for investment above 20%.
- Out of total respondents 40% respondents invest their money in fixed deposits, 33% respondents invest their money in insurance, 10.56% respondents invest their money in Mutual fund, 7.82% respondents invest their money in stock market and 8.56% respondents invest their money in Real estate.
- Majority of respondents i.e. 33% respondents believe that children's education is the prime objective of their investment, 27.82% respondents believe in housing property, 21.74% respondents believe in retirement planning, 10.43% respondents' objective is to meet future contingencies and 6.95% respondents' objective is priority for health activities.
- Majority of respondents take financial decisions in discussion with their family members and friends and some of respondents take advice of investment experts.
- 45.21% respondents have updated their financial knowledge through newspaper, 36.52% respondents have updated their financial knowledge through internet and 18.26% respondents have updated their financial knowledge through seminars.

### 1.9 Future Research Opportunities:

It is expected to grow the level of financial literacy in urban as well as rural area through various educational initiatives by financial regulating authorities in the country. Financial literacy will continue to be the most significant area of research where lack of financial knowledge and financial skills has been identified in previous research.

### 1.10 Conclusion:

Financial literacy has positive impact on the behavior of individual as through the financial literacy individual able to gain the specific knowledge of different financial concept and techniques. Financial literacy able individual to take sound financial decisions for financial wellbeing. Through financial literacy individual can develop financial skills and specialized financial knowledge to take efficient financial decisions. Financial planning helps individual to have positive attitude towards financial planning. In our country there are various financial regulating authorities those who had taken a appreciable initiatives for increasing financial literacy in society through financial education awareness workshops and seminars. Such initiatives had created a positive impact on the mindset of people in the society. There is greater need of financial literacy in rural area as rural crowd

is not aware about various financial concepts and techniques. Through financial literacy people can protect their hard earn money from various ponzi schemes. Therefore financial literacy is important for financial stability in society.

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